

AXCELIS TECHNOLOGIES INC

Form 10-Q

August 08, 2014

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

- x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2014**

**Or**

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from                      to**

**Commission file number 000-30941**

**AXCELIS TECHNOLOGIES, INC.**

# Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**34-1818596**  
(IRS Employer  
Identification No.)

**108 Cherry Hill Drive**  
**Beverly, Massachusetts 01915**  
(Address of principal executive offices, including zip code)

**(978) 787-4000**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

As of July 29, 2014 there were 111,586,627 shares of the registrant's common stock outstanding.



Table of Contents

**Table of Contents**

**PART I - FINANCIAL INFORMATION**

|                       |  |    |
|-----------------------|--|----|
| <b><u>Item 1.</u></b> | <b><u>Financial Statements (Unaudited)</u></b>   |    |
|                       | <u>Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013</u>         | 3  |
|                       | <u>Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2014 and 2013</u> | 4  |
|                       | <u>Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013</u>                                   | 5  |
|                       | <u>Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013</u>                   | 6  |
|                       | <u>Notes to Consolidated Financial Statements (Unaudited)</u>  | 7  |
| <b><u>Item 2.</u></b> | <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>            | 13 |
|                       | <u>Overview</u>  | 13 |
|                       | <u>Critical Accounting Estimates</u>   | 14 |
|                       | <u>Results of Operations</u>   | 14 |
|                       | <u>Liquidity and Capital Resources</u>   | 21 |
| <b><u>Item 3.</u></b> | <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>                                       | 22 |
| <b><u>Item 4.</u></b> | <b><u>Controls and Procedures</u></b>  | 22 |

**PART II - OTHER INFORMATION**

|                        |   |    |
|------------------------|---|----|
| <b><u>Item 1.</u></b>  | <b><u>Legal Proceedings</u></b>   | 23 |
| <b><u>Item 1A.</u></b> | <b><u>Risk Factors</u></b>  | 23 |
| <b><u>Item 2.</u></b>  | <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b> | 23 |
| <b><u>Item 3.</u></b>  | <b><u>Defaults Upon Senior Securities</u></b>                             | 23 |
| <b><u>Item 4.</u></b>  | <b><u>Mine Safety Disclosures</u></b>                                     | 23 |
| <b><u>Item 5.</u></b>  | <b><u>Other Information</u></b>   | 23 |
| <b><u>Item 6.</u></b>  | <b><u>Exhibits</u></b>  | 24 |

[Table of Contents](#)
**PART 1 FINANCIAL INFORMATION**
**Item 1. Financial Statements.**
**Axcelis Technologies, Inc.**
**Consolidated Statements of Operations**
**(In thousands, except per share amounts)**
**(Unaudited)**

|  | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2014</b>               | <b>2013</b> | <b>2014</b>             | <b>2013</b> |
| Revenue:   |                           |             |                         |             |
| Product  | \$ 34,795                 | \$ 40,769   | \$ 89,810               | \$ 75,220   |
| Services   | 6,355                     | 6,732       | 12,180                  | 13,006      |
| Total revenue  | 41,150                    | 47,501      | 101,990                 | 88,226      |
| Cost of revenue:   |                           |             |                         |             |
| Product  | 21,021                    | 25,457      | 54,823                  | 47,638      |
| Services   | 5,645                     | 5,307       | 10,943                  | 10,910      |
| Total cost of revenue                                      | 26,666                    | 30,764      | 65,766                  | 58,548      |
| Gross profit   | 14,484                    | 16,737      | 36,224                  | 29,678      |
| Operating expenses:  |                           |             |                         |             |
| Research and development                                   | 8,845                     | 8,503       | 18,102                  | 17,709      |
| Sales and marketing  | 5,037                     | 5,594       | 10,513                  | 10,796      |
| General and administrative                                 | 6,494                     | 6,412       | 12,975                  | 13,001      |
| Gain on sale of dry strip assets and intellectual property |                           | (799)       |                         | (1,167)     |
| Restructuring charges                                      | 160                       | 421         | 360                     | 2,222       |
| Total operating expenses                                   | 20,536                    | 20,131      | 41,950                  | 42,561      |
| Loss from operations                                       | (6,052)                   | (3,394)     | (5,726)                 | (12,883)    |
| Other income (expense):                                    |                           |             |                         |             |
| Interest income  | 2                         | 3           | 4                       | 6           |
| Interest expense   | (257)                     | (51)        | (508)                   | (115)       |
| Other, net   | (362)                     | (314)       | (70)                    | 580         |
| Total other income (expense)                               | (617)                     | (362)       | (574)                   | 471         |
| Loss before income taxes                                   | (6,669)                   | (3,756)     | (6,300)                 | (12,412)    |
| Income taxes   | 231                       | 263         | 426                     | 596         |
| Net loss   | \$ (6,900)                | \$ (4,019)  | \$ (6,726)              | \$ (13,008) |

# Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Net loss per share

|                   |    |        |    |        |    |        |    |        |
|-------------------|----|--------|----|--------|----|--------|----|--------|
| Basic and Diluted | \$ | (0.06) | \$ | (0.04) | \$ | (0.06) | \$ | (0.12) |
|-------------------|----|--------|----|--------|----|--------|----|--------|

Shares used in computing net loss per share:

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Basic and diluted weighted average common shares | 111,212 | 108,409 | 110,932 | 108,319 |
|--|---------|---------|---------|---------|

See accompanying Notes to these Consolidated Financial Statement

Table of Contents

**Axcelis Technologies, Inc.**

**Consolidated Statements of Comprehensive Loss**

**(In thousands)**

**(Unaudited)**

|   | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|   | <b>2014</b>               | <b>2013</b> | <b>2014</b>             | <b>2013</b> |
| Net loss  | \$ (6,900)                | \$ (4,019)  | \$ (6,726)              | \$ (13,008) |
| Other comprehensive income (loss):                |                           |             |                         |             |
| Foreign currency translation adjustments          | 759                       | 119         | 82                      | (1,959)     |
| Amortization of actuarial gains from pension plan | 6                         | 8           | 12                      | 16          |
| Total other comprehensive income (loss)           | 765                       | 127         | 94                      | (1,943)     |
| Comprehensive loss                                | \$ (6,135)                | \$ (3,892)  | \$ (6,632)              | \$ (14,951) |

See accompanying Notes to these Consolidated Financial Statements

Table of Contents**Axcelis Technologies, Inc.****Consolidated Balance Sheets****(In thousands, except per share amounts)****(Unaudited)**

|  | <b>June 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|--|--------------------------|------------------------------|
| <b>ASSETS</b>  |                          |                              |
| Current assets:  |                          |                              |
| Cash and cash equivalents  | \$ 35,588                | \$ 46,290                    |
| Accounts receivable, net   | 32,067                   | 36,587                       |
| Inventories, net   | 106,650                  | 95,789                       |
| Prepaid expenses and other current assets  | 7,572                    | 6,242                        |
| Total current assets   | 181,877                  | 184,908                      |
| Property, plant and equipment, net   | 31,340                   | 32,006                       |
| Long-term restricted cash  | 825                      | 825                          |
| Other assets   | 12,539                   | 15,810                       |
| Total assets   | \$ 226,581               | \$ 233,549                   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                          |                              |
| Current liabilities:   |                          |                              |
| Accounts payable   | \$ 17,379                | \$ 19,451                    |
| Accrued compensation   | 3,975                    | 4,845                        |
| Warranty   | 1,326                    | 1,316                        |
| Income taxes   | 430                      | 417                          |
| Deferred revenue   | 4,227                    | 4,387                        |
| Current portion of long-term debt  | 1,054                    | 471                          |
| Other current liabilities  | 3,681                    | 4,573                        |
| Total current liabilities  | 32,072                   | 35,460                       |
| Long-term debt   | 13,946                   | 14,529                       |
| Long-term deferred revenue   | 101                      | 322                          |
| Other long-term liabilities  | 7,136                    | 7,236                        |
| Total liabilities  | 53,255                   | 57,547                       |
| Commitments and contingencies (Note 13)  |                          |                              |
| Stockholders' equity:  |                          |                              |
| Preferred stock, \$0.001 par value, 30,000 shares authorized; none issued or outstanding   |                          |                              |
| Common stock, \$0.001 par value, 300,000 shares authorized; 111,643 shares issued and 111,523 shares outstanding at June 30, 2014; 110,225 shares issued and 110,105 shares outstanding at December 31, 2013 | 112                      | 110                          |
| Additional paid-in capital   | 514,946                  | 510,992                      |
| Treasury stock, at cost, 120 shares at June 30, 2014 and December 31, 2013   | (1,218)                  | (1,218)                      |
| Accumulated deficit  | (346,347)                | (339,621)                    |
| Accumulated other comprehensive income   | 5,833                    | 5,739                        |
| Total stockholders' equity   | 173,326                  | 176,002                      |
| Total liabilities and stockholders' equity   | \$ 226,581               | \$ 233,549                   |



See accompanying Notes to these Consolidated Financial Statements

Table of Contents**Axcelis Technologies, Inc.****Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

|  | <b>Six months ended<br/>June 30,</b> |             |
|--|--------------------------------------|-------------|
|  | <b>2014</b>                          | <b>2013</b> |
| <b>Cash flows from operating activities</b>                                  |                                      |             |
| Net loss   | \$ (6,726)                           | \$ (13,008) |
| Adjustments to reconcile net loss to net cash used for operating activities: |                                      |             |
| Depreciation and amortization  | 2,299                                | 2,719       |
| Gain on sale of dry strip assets and intellectual property                   |                                      | (1,167)     |
| Deferred taxes   | 334                                  | 52          |
| Stock-based compensation expense   | 2,182                                | 1,644       |
| Provision for excess and obsolete inventory                                  | 244                                  | 2,370       |
| Changes in operating assets & liabilities:                                   |                                      |             |
| Accounts receivable  | 4,493                                | (5,587)     |
| Inventories  | (10,917)                             | 431         |
| Prepaid expenses and other current assets                                    | (1,334)                              | (1,049)     |
| Accounts payable and other current liabilities                               | (3,860)                              | 5,642       |
| Deferred revenue   | (377)                                | (891)       |
| Income taxes   | 13                                   | (48)        |
| Other assets and liabilities   | 1,794                                | (1,905)     |
| Net cash used for operating activities                                       | (11,855)                             | (10,797)    |
| <b>Cash flows from investing activities</b>                                  |                                      |             |
| Proceeds from sale of dry strip assets and intellectual property             |                                      | 1,200       |
| Purchases of property, plant, and equipment                                  | (567)                                | (336)       |
| Decrease in restricted cash  |                                      | 2           |
| Net cash (used for) provided by investing activities                         | (567)                                | 866         |
| <b>Cash flows from financing activities</b>                                  |                                      |             |
| Proceeds from exercise of stock options                                      | 1,583                                | 206         |
| Proceeds from Employee Stock Purchase Plan                                   | 227                                  | 197         |
| Net cash provided by financing activities                                    | 1,810                                | 403         |
| Effect of exchange rate changes on cash and cash equivalents                 | (90)                                 | (819)       |
| Net decrease in cash and cash equivalents                                    | (10,702)                             | (10,347)    |
| Cash and cash equivalents at beginning of period                             | 46,290                               | 44,986      |
| Cash and cash equivalents at end of period                                   | \$ 35,588                            | \$ 34,639   |

See accompanying Notes to these Consolidated Financial Statements

Table of Contents

**Axcelis Technologies, Inc.**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 1. Nature of Business**

Axcelis Technologies, Inc. ( Axcelis or the Company ) was incorporated in Delaware in 1995, and is a worldwide producer of ion implantation and other processing equipment used in the fabrication of semiconductor chips in the United States, Europe and Asia. In addition, the Company provides extensive aftermarket service and support, including spare parts, equipment upgrades, and maintenance services to the semiconductor industry.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments which are of a normal recurring nature and considered necessary for a fair presentation of these financial statements have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for other interim periods or for the year as a whole.

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Axcelis Technologies, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013.

**Note 2. Stock-Based Compensation**

The Company maintains the Axcelis Technologies, Inc. 2012 Equity Incentive Plan (the 2012 Equity Plan ), which became effective on May 2, 2012, and permits the issuance of options, restricted stock, restricted stock units and performance awards to selected employees, directors and consultants of the Company. The Company's 2000 Stock Plan (the 2000 Stock Plan ), expired on May 1, 2012 and no new grants may be made under that plan after this date. However, awards granted under the 2000 Stock Plan prior to the expiration remain outstanding and subject to the terms of the 2000 Stock Plan. The Company also maintains the Axcelis Technologies, Inc. Employee Stock Purchase Plan (the ESPP ), an Internal Revenue Code Section 423 plan.

The 2012 Equity Plan and the ESPP are more fully described in Note 13 to the consolidated financial statements in the Company's 2013 Annual Report on Form 10-K.

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

The Company recognized stock-based compensation expense of \$1.0 million and \$0.8 million for the three-month periods ended June 30, 2014 and 2013, respectively. The Company recognized stock-based compensation expense of \$2.2 million and \$1.6 million for the six-month periods ended June 30, 2014 and 2013, respectively. These amounts include compensation expense related to restricted stock units, non-qualified stock options and stock to be issued to participants under the ESPP.

### **Note 3. Gain on Sale of Dry Strip Assets and Intellectual Property**

In December 2012, the Company sold certain of its dry strip assets and all of its dry strip intellectual property to Lam Research Corporation (Lam). A portion of the purchase consideration (up to \$2.0 million) was contingent upon the Company achieving certain milestones. The Company recorded \$0.8 million and \$1.2 million for the proceeds received based on its achievement of milestones during the three and six months ended June 30, 2013, respectively. These amounts were partially offset by additional costs associated with the lab system purchased by Lam.

### **Note 4. Computation of Net Loss per Share**

Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. The computation of diluted earnings (loss) per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued, calculated using the treasury stock method.

# Table of Contents

The components of net loss per share are as follows:

|   | Three months ended<br>June 30,        |            | Six months ended<br>June 30, |             |
|---|---------------------------------------|------------|------------------------------|-------------|
|   | 2014                                  | 2013       | 2014                         | 2013        |
|   | (in thousands, except per share data) |            |                              |             |
| Net loss attributable to common stockholders  | \$ (6,900)                            | \$ (4,019) | \$ (6,726)                   | \$ (13,008) |
| Weighted average common shares outstanding used in computing basic and diluted net loss per share | 111,212                               | 108,409    | 110,932                      | 108,319     |
| Net loss per share  |                                       |            |                              |             |
| Basic and Diluted   | \$ (0.06)                             | \$ (0.04)  | \$ (0.06)                    | \$ (0.12)   |

The Company incurred net losses for the three and six-month periods ended June 30, 2014 and June 30, 2013, and has excluded the incremental shares attributable to outstanding stock options, restricted stock and restricted stock units from the calculation of net loss per share because the effect would have been anti-dilutive. The following table sets forth the number of incremental shares excluded from the calculation above:

|  | Three months ended<br>June 30, |       | Six months ended<br>June 30, |       |
|--|--------------------------------|-------|------------------------------|-------|
|  | 2014                           | 2013  | 2014                         | 2013  |
|  | (in thousands)                 |       |                              |       |
| Incremental shares excluded from the calculation of net loss per share | 4,047                          | 2,183 | 4,625                        | 2,159 |

## Note 5. Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income, net of tax, by component for the six months ended June 30, 2014:

|  | Foreign<br>currency | Defined benefit<br>pension plan<br>(in thousands) | Total    |
|--|---------------------|---|----------|
| Balance at December 31, 2013                                     | \$ 6,070            | \$ (331)  | \$ 5,739 |
| Other comprehensive income before reclassifications              | 82                  |   | 82       |
| Amounts reclassified from accumulated other comprehensive income |                     |   |          |
| (1)  |                     | 12  | 12       |
| Net current-period other comprehensive income                    | 82                  | 12  | 94       |
| Balance at June 30, 2014   | \$ 6,152            | \$ (319)  | \$ 5,833 |

(1) Amount presented before taxes as the tax effect is not material to the consolidated financial statements.

**Note 6. Inventories, net**

The components of inventories are as follows:

|                                    | June 30,<br>2014 | December 31,<br>2013 |
|------------------------------------|------------------|----------------------|
|                                    | (in thousands)   |                      |
| Raw materials                      | \$ 63,103        | \$ 56,942            |
| Work in process                    | 31,893           | 27,462               |
| Finished goods (completed systems) | 11,654           | 11,385               |
|                                    | \$ 106,650       | \$ 95,789            |

Table of Contents

When recorded, inventory reserves are intended to reduce the carrying value of inventories to their net realizable value. The Company establishes inventory reserves when conditions exist that indicate inventory may be in excess of anticipated demand or is obsolete based upon assumptions about future demand for the Company's products or market conditions. The Company regularly evaluates the ability to realize the value of inventories based on a combination of factors including the following: forecasted sales or usage, estimated product end of life dates, estimated current and future market value and new product introductions. Purchasing and usage alternatives are also explored to mitigate inventory exposure. As of June 30, 2014 and December 31, 2013, inventories are stated net of inventory reserves of \$24.3 million and \$25.1 million, respectively.

During the three and six months ended June 30, 2013, the Company recorded a charge to cost of sales of \$0 and \$2.1 million, respectively, for 300mm dry strip components. Under the terms of the agreement with Lam, the Company was permitted to manufacture and sell 300 mm dry strip products through September 2013. Due to changes in the forecasted sales of the Company's dry strip products that became known during the six months ended June 30, 2013, a portion of the dry strip inventory components was determined to be non-recoverable.

**Note 7. Restructuring Charges**

During 2013, the Company initiated reductions in force to control costs and improve the focus of its operations in order to achieve future profitability and conserve cash. As of December 31, 2013, less than \$0.1 million of these costs were accrued and unpaid.

During the six months ended June 30, 2014, the Company implemented further actions, which resulted in restructuring charges for severance and related costs of \$0.4 million. The liability at June 30, 2014 of \$0.1 million is expected to be paid primarily in the third quarter of 2014.

Changes in the Company's restructuring liability, which consist primarily of severance and related costs, included in amounts reported as other current liabilities, are as follows:

|                              | (in thousands) |       |
|------------------------------|----------------|-------|
| Balance at December 31, 2013 | \$             | 43    |
| Severance and related costs  |                | 360   |
| Cash payments                |                | (318) |
| Balance at June 30, 2014     | \$             | 85    |

**Note 8. Product Warranty**

The Company generally offers a one year warranty for all of its systems, the terms and conditions of which vary depending upon the product sold. For all systems sold, the Company accrues a liability for the estimated cost of standard warranty at the time of system shipment and defers the portion of systems revenue attributable to the fair value of non-standard warranty. Costs for non-standard warranty are expensed as incurred. Factors that affect the Company's warranty liability include the number of installed units, historical and anticipated product failure rates, material usage and service labor costs. The Company periodically assesses the adequacy of its recorded liability and adjusts the amount as necessary.





## Table of Contents

The changes in the Company's standard product warranty liability are as follows:

|  | Six months ended<br>June 30, |          |
|--|------------------------------|----------|
|  | 2014                         | 2013     |
|  | (in thousands)               |          |
| Balance at January 1 (beginning of year)                                       | \$ 1,428                     | \$ 1,801 |
| Warranties issued during the period  | 832                          | 925      |
| Settlements made during the period   | (978)                        | (705)    |
| Changes in estimate of liability for pre-existing warranties during the period | 79                           | (536)    |
| Balance at June 30 (end of period)   | \$ 1,361                     | \$ 1,485 |
| Amount classified as current   | \$ 1,326                     | \$ 1,419 |
| Amount classified as long-term   | 35                           | 66       |
| Total warranty liability   | \$ 1,361                     | \$ 1,485 |

## Note 9. Fair Value Measurements

Certain of the assets and liabilities on the Company's consolidated balance sheets are reported at their Fair Value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

### (a) Fair Value Hierarchy

The accounting guidance for fair value measurement requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

**Level 1** applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

**Level 2** applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

**(b) Assets Measured at Fair Value on a Recurring Basis**

The Company's money market funds are included in cash and cash equivalents in the consolidated balance sheets, and are considered a level 1 investment as they are valued at quoted market prices in active markets. The Company's term loan is carried at amortized cost which approximates fair value based on current market pricing of similar debt instruments and is categorized as level 2 within the fair value hierarchy.

Table of Contents

The following table sets forth the Company's assets and liabilities by level within the fair value hierarchy.

| June 30, 2014           |          |           |         |        |
|-------------------------|----------|-----------|---------|--------|
| Fair Value Measurements |          |           |         |        |
|                         | Level 1  | Level 2   | Level 3 | Total  |
| (in thousands)          |          |           |         |        |
| Assets                  |          |           |         |        |
| Cash equivalents:       |          |           |         |        |
| Money market funds      | \$ 6,153 | \$        | \$      | 6,153  |
| Liabilities             |          |           |         |        |
| Term loan               | \$       | \$ 15,000 | \$      | 15,000 |

| December 31, 2013       |           |           |         |           |
|-------------------------|-----------|-----------|---------|-----------|
| Fair Value Measurements |           |           |         |           |
|                         | Level 1   | Level 2   | Level 3 | Total     |
| (in thousands)          |           |           |         |           |
| Assets                  |           |           |         |           |
| Cash equivalents:       |           |           |         |           |
| Money market funds      | \$ 10,504 | \$        | \$      | \$ 10,504 |
| Liabilities             |           |           |         |           |
| Term loan               | \$        | \$ 15,000 | \$      | \$ 15,000 |

**(c) Other Financial Instruments**

The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents (which are comprised primarily of deposit and investment accounts), accounts receivable, prepaid expenses and other current and non-current assets, restricted cash, accounts payable and accrued expenses approximate fair value due to their short-term maturities.

**Note 10. Financing Arrangements****Term Loan**

The Company has a Business Loan Agreement dated July 5, 2013 with Northern Bank & Trust Company which provides for a three year term loan of \$15.0 million secured by the Company's real estate in Beverly, Massachusetts. The loan bears interest at 5.5% per annum, with payments of principal beginning August 5, 2014. Interest is payable monthly. All outstanding principal and interest on the term loan is due and payable on July 5, 2016. The Business Loan Agreement was amended in May 2014 to defer to September 30, 2014, the effectiveness of a covenant establishing a minimum ratio of net income to debt service expense, waiving the Company's non-compliance with that covenant at March 31, 2014. The Company was in compliance with all covenants associated with the term loan during the second quarter of 2014.

**Credit Facility**

The Company has a revolving credit facility with Silicon Valley Bank dated October 31, 2013 and amended on August 1, 2014 with a Waiver and Amendment Agreement. Under this revolving credit facility, the Company has the ability to borrow up to \$10.0 million on a revolving basis during its two year term. The Company's ability to borrow under this line of credit is limited to 80% of the then current amount of qualified accounts receivable. At June 30, 2014, our available borrowing capacity under the credit facility was \$8.9 million. There were no borrowings against this facility during the six months ended June 30, 2014. The Company was in compliance with all covenants related to the credit facility, with the exception of the Minimum Adjusted Net Income covenant, which was waived under the Waiver and Amendment Agreement.

Table of Contents

**Note 11. Income Taxes**

Income tax expense relates principally to operating results of foreign entities in jurisdictions, primarily in Europe and Asia, where the Company earns taxable income. The Company has significant net operating losses in the United States and certain other tax jurisdictions and, as a result, does not pay significant income taxes in those jurisdictions.

As of December 31, 2013, the Company's valuation allowance related to income taxes was approximately \$147.5 million. The Company is in a three year cumulative loss position in the United States. As a result, the Company maintains a 100% valuation allowance to reduce the carrying value of the related deferred tax assets to zero. The Company will continue to maintain a full valuation allowance for those tax assets until sustainable future levels of profitability are evident.

**Note 12. Concentration of Risk**

For the three months ended June 30, 2014, two customers accounted for approximately 15.9% and 11.1% of consolidated revenue. For the six months ended June 30, 2014, two customers accounted for approximately 24.5% and 12.5% of consolidated revenue.

For the three months ended June 30, 2013, three customers accounted for approximately 15.1%, 14.7%, and 10.6% of consolidated revenue. For the six months ended June 30, 2013, one customer accounted for approximately 10.6% of consolidated revenue.

At June 30, 2014, three customers accounted for 15.0%, 13.4%, and 12.7% of consolidated accounts receivable. At December 31, 2013, the Company had three customers which accounted for 23.2%, 14.2% and 13.6% of consolidated accounts receivable.

**Note 13. Contingencies**

**(a) Litigation**

The Company is not presently a party to any litigation that it believes might have a material adverse effect on its business operations. The Company is, from time to time, a party to litigation that arises in the normal course of its business operations.

**(b) Indemnifications**

The Company's system sales agreements typically include provisions under which the Company agrees to take certain actions, provide certain remedies and defend its customers against third-party claims of intellectual property infringement under specified conditions and to indemnify customers against any damage and costs awarded in connection with such claims. The Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.

**Note 14. Recent Accounting Guidance**

Effective January 1, 2014, the Company adopted Accounting Standards Update (ASU) No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exist. ASU 2013-11 amended the presentation requirements of ASC 740, Income Taxes, and requires that a reserve for an unrecognized tax benefit be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. To the extent the tax benefit is not available at the reporting date under the governing tax law or if the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability and not combined with deferred tax assets. The ASU became effective for annual periods, and interim periods within those years, beginning after December 15, 2013, which is fiscal 2014 for the Company. The amendments are to be applied to all unrecognized tax benefits that exist as of the effective date and may be applied retrospectively to each prior reporting period presented. The adoption of this standard did not have a material impact on our consolidated financial statements.

Table of Contents

Accounting Standards or Updates Not Yet Effective

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently assessing the potential impact of ASU No. 2014-09 on its financial statements.

**Note 15. Subsequent Event**

In order to align manufacturing and operating expense levels to changing business conditions, the Company is implementing a headcount reduction in the third quarter of 2014. The Company anticipates recording employee termination benefits and other related costs of approximately \$2.0 million during the third quarter of 2014.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Overview**

The semiconductor capital equipment industry is subject to significant cyclical swings in capital spending by semiconductor manufacturers. Capital spending is influenced by demand for semiconductors and the products using them, the utilization rate and capacity of existing semiconductor manufacturing facilities and changes in semiconductor technology, all of which are outside of our control. Most of our cost structure does not automatically vary with changes in volume, so we must take action to align expenses to varying levels of revenue, at times incurring restructuring costs. As a result, we experience fluctuations in operating results and cash flows depending on our revenue as driven by the level of capital expenditures by semiconductor manufacturers.

After a period of gradual market improvement that began in the second quarter of 2013, we entered a market pause in the second quarter of 2014, in which customers delayed purchasing decisions. We expect the industry to improve in late 2014, with improved conditions continuing into 2015. Growth may slow or accelerate from one quarter to another during this period. Our recent financial results reflect this industry pause. A successful semiconductor equipment manufacturer must not only provide some of the most technically complex products manufactured in the world but must also design its business to thrive during the inevitable low points in the cycle. Accordingly, we are taking further aggressive actions in the third quarter of 2014 to reduce and align manufacturing and operating expense levels to our current business conditions and maintain sufficient liquidity to support operations.

Our first Purion H high current ion implanter was shipped in the second quarter of 2014, and we expect to continue to place Purion systems with customers in 2014. As the industry improves in late 2014, we expect to grow system sales of our full platform of Purion products. Our

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

expectations regarding the industry environment and our own sales are forward looking statements. Actual future results may vary from our current expectations due to a variety of economic and business factors.

Consolidation and partnering within the semiconductor manufacturing industry has resulted in a small number of customers representing a substantial portion of our business. Our net revenue from our ten largest customers accounted for 74.0% of total revenue for the six months ended June 30, 2014; compared to 70.0% of revenue for the six months ended June 30, 2013.

Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for future interim periods or years as a whole.



## Table of Contents

### Critical Accounting Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon Axcelis' consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions. Management's estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management has not identified any need to make any material change in, and has not changed, any of our critical accounting estimates and judgments as described in Management's Discussion and Analysis of Financial Conditions and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2013.

### Results of Operations

The following table sets forth our results of operations as a percentage of total revenue:

|  | Three months ended<br>June 30, |       | Six months ended<br>June 30, |        |
|--|--------------------------------|-------|------------------------------|--------|
|  | 2014                           | 2013  | 2014                         | 2013   |
| <b>Revenue:</b>  |                                |       |                              |        |
| Product  | 84.6%                          | 85.8% | 88.1%                        | 85.3%  |
| Services   | 15.4                           | 14.2  | 11.9                         | 14.7   |
| Total revenue  | 100.0                          | 100.0 | 100.0                        | 100.0  |
| <b>Cost of revenue:</b>                                    |                                |       |                              |        |
| Product  | 51.1                           | 53.6  | 53.8                         | 54.0   |
| Services   | 13.7                           | 11.2  | 10.7                         | 12.4   |
| Total cost of revenue                                      | 64.8                           | 64.8  | 64.5                         | 66.4   |
| Gross profit   | 35.2                           | 35.2  | 35.5                         | 33.6   |
| <b>Operating expenses:</b>                                 |                                |       |                              |        |
| Research and development                                   | 21.5                           | 17.9  | 17.7                         | 20.1   |
| Sales and marketing  | 12.2                           | 11.7  | 10.3                         | 12.2   |
| General and administrative                                 | 15.8                           | 13.5  | 12.7                         | 14.7   |
| Gain on sale of dry strip assets and intellectual property | 0.0                            | (1.7) | 0.0                          | (1.3)  |
| Restructuring charges                                      | 0.4                            | 0.9   | 0.4                          | 2.5    |
| Total operating expenses                                   | 49.9                           | 42.3  | 41.1                         | 48.2   |
| Loss from operations                                       | (14.7)                         | (7.1) | (5.6)                        | (14.6) |
| <b>Other income (expense):</b>                             |                                |       |                              |        |
| Interest income  | 0.0                            | 0.0   | 0.0                          | 0.0    |
| Interest expense   | (0.6)                          | (0.1) | (0.5)                        | (0.1)  |
| Other, net   | (0.9)                          | (0.7) | (0.1)                        | 0.7    |
| Total other income (expense)                               | (1.5)                          | (0.8) | (0.6)                        | 0.6    |
| Loss before income taxes                                   | (16.2)                         | (7.9) | (6.2)                        | (14.0) |

# Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

|              |         |        |        |         |
|--------------|---------|--------|--------|---------|
| Income taxes | 0.6     | 0.6    | 0.4    | 0.7     |
| Net loss     | (16.8)% | (8.5)% | (6.6)% | (14.7)% |

14

---

Table of Contents**Revenue**

The following table sets forth our revenues.

|                           | Three months ended<br>June 30, |           | Period-to-Period<br>Change |         | Six months ended<br>June 30, |           | Period-to-Period<br>Change |        |
|---------------------------|--------------------------------|-----------|----------------------------|---------|------------------------------|-----------|----------------------------|--------|
|                           | 2014                           | 2013      | \$                         | %       | 2014                         | 2013      | \$                         | %      |
|                           | (dollars in thousands)         |           |                            |         |                              |           |                            |        |
| Revenues:                 |                                |           |                            |         |                              |           |                            |        |
| Product                   | \$ 34,795                      | \$ 40,769 | \$ (5,974)                 | (14.7)% | \$ 89,810                    | \$ 75,220 | \$ 14,590                  | 19.4%  |
| Percentage of<br>revenues | 84.6%                          | 85.8%     |                            |         | 88.1%                        | 85.3%     |                            |        |
| Services                  | 6,355                          | 6,732     | (377)                      | (5.6)%  | 12,180                       | 13,006    | (826)                      | (6.4)% |
| Percentage of<br>revenues | 15.4%                          | 14.2%     |                            |         | 11.9%                        | 14.7%     |                            |        |
| Total revenues            | \$ 41,150                      | \$ 47,501 | \$ (6,351)                 | (13.4)% | \$ 101,990                   | \$ 88,226 | \$ 13,764                  | 15.6%  |

Three Months Ended June 30, 2014 Compared with Three Months Ended June 30, 2013*Product*

Product revenue, which includes system sales, sales of spare parts, product upgrades, and used systems was \$34.8 million, or 84.6%, of revenue during the three months ended June 30, 2014, compared with \$40.8 million, or 85.8% of revenue for the three months ended June 30, 2013. The year over year decrease in product revenue is attributable to system push-outs at a time of overall muted customer spending.

A portion of our revenue from system sales is deferred until installation and other services related to future deliverables are performed. The total amount of deferred revenue at June 30, 2014 and December 31, 2013 was \$4.3 million and \$4.7 million, respectively. The decrease was mainly due to the timing of systems sales during the three months ended June 30, 2014, and the timing of acceptance of deferred system sales.

*Services*

Service revenue, which remained relatively flat, includes the labor component of maintenance and service contracts and fees for service hours provided by on-site service personnel, was \$6.4 million, or 15.4% of revenue for the three months ended June 30, 2014, compared with \$6.7 million, or 14.2% of revenue for the three months ended June 30, 2013. Service revenue fluctuates from period to period based on capacity utilization at customers' manufacturing facilities, which affects the need for equipment service.

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013

### *Product*

Product revenue was \$89.8 million, or 88.1% of revenue for the six months ended June 30, 2014, compared with \$75.2 million, or 85.3% of revenue for the six months ended June 30, 2013. The increase in product revenue is attributable to improved semiconductor market spending, specifically during the first three months of 2014, which was partially offset by lower system sales during the three-months ended June 30, 2014.

### *Services*

Service revenue was \$12.2 million, or 11.9% of revenue for the six months ended June 30, 2014, compared with \$13.0 million, or 14.7% of revenue for the six months ended June 30, 2013. Although service revenue should increase with the expansion of the installed base of systems, it can fluctuate from period to period based on capacity utilization at customers' manufacturing facilities, which affects the need for equipment service. The slight decrease was primarily due to changes in the mix and timing of service contracts.

Table of Contents

**Revenue Categories used by Management**

As an alternative to the line item revenue categories discussed above, management also uses revenue categorizations which look at revenue by systems and aftermarket, as described below.

Three Months Ended June 30, 2014 Compared with Three Months Ended June 30, 2013

*Systems*

Included in total revenue of \$41.2 million during the three months ended June 30, 2014 is revenue from sales of systems of \$10.9 million, or 26.4% of total revenue, compared with \$16.6 million, or 35.0%, of total revenue for the three months ended June 30, 2013. The decrease was due primarily to the factors described above for product revenue.

*Aftermarket*

We refer to the business of selling spare parts, product upgrades and used systems, combined with the sale of maintenance labor and service contracts and service hours, as the aftermarket business. Included in total revenue of \$41.2 million during the three months ended June 30, 2014 is revenue from our aftermarket business of \$30.3 million, which is relatively flat when compared to \$30.9 million for the three months ended June 30, 2013. Aftermarket revenue fluctuates from period to period based on capacity utilization at customers manufacturing facilities which affects the sale of spare parts and demand for equipment service. Aftermarket revenue can also fluctuate from period to period based on the demand for system upgrades or used tools.

Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013

*Systems*

Included in total revenue of \$102.0 million during the six months ended June 30, 2014 is revenue from sales of systems of \$43.3 million, or 42.5% of total revenue, compared with \$29.3 million, or 33.2% of total revenue for the six months ended June 30, 2013. The increase was due to higher sales of Purion systems in an improved semiconductor equipment market during the first three months of 2014, which was partially offset by lower system sales during the three-months ended June 30, 2014.

*Aftermarket*

Included in total revenue of \$102.0 million during the six months ended June 30, 2014 is revenue from our aftermarket business of \$58.7 million, or 57.5%, flat compared to \$58.9 million, or 66.8% for the six months ended June 30, 2013.

# Table of Contents

## Gross Profit / Gross Margin

The following table sets forth our gross profit / gross margin.

|                        | Three months ended<br>June 30, |           | Period-to-Period<br>Change |         | Six months ended<br>June 30, |           | Period-to-Period<br>Change |         |
|------------------------|--------------------------------|-----------|----------------------------|---------|------------------------------|-----------|----------------------------|---------|
|                        | 2014                           | 2013      | \$                         | %       | 2014                         | 2013      | \$                         | %       |
| (dollars in thousands) |                                |           |                            |         |                              |           |                            |         |
| Gross Profit:          |                                |           |                            |         |                              |           |                            |         |
| Product                | \$ 13,774                      | \$ 15,312 | \$ (1,538)                 | (10.0)% | \$ 34,987                    | \$ 27,582 | \$ 7,405                   | 26.8%   |
| Product gross margin   | 39.6%                          | 37.6%     |                            |         | 39.0%                        | 36.7%     |                            |         |
| Services               | 710                            | 1,425     | (715)                      | (50.2)% | 1,237                        | 2,096     | (859)                      | (41.0)% |
| Services gross margin  | 11.2%                          | 21.2%     |                            |         | 10.2%                        | 16.1%     |                            |         |
| Total gross profit     | \$ 14,484                      | \$ 16,737 | \$ (2,253)                 | (13.5)% | \$ 36,224                    | \$ 29,678 | \$ 6,546                   | 22.1%   |
| Gross margin           | 35.2%                          | 35.2%     |                            |         | 35.5%                        | 33.6%     |                            |         |

### Three Months Ended June 30, 2014 Compared with Three Months Ended June 30, 2013

#### Product

Gross profit from product revenue was 39.6% for the three months ended June 30, 2014, compared to 37.6% for the three months ended June 30, 2013. The increase in gross profit is due to an increased mix of parts and upgrade revenue partially offset by lower systems sales volumes.

#### Services

Gross profit from service revenue was 11.2% for the three months ended June 30, 2014, compared to 21.2% for the three months ended June 30, 2013. The decrease in gross profit is due to lower sales volumes and the mix of service contracts.

### Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013

#### Product

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Gross profit from product revenue was 39.0% for the six months ended June 30, 2014, compared to 36.7% for the six months ended June 30, 2013. The increase in gross profit is due to higher systems sales volume and the related favorable absorption of fixed overhead costs, a lower provision for excess inventory and a decreased mix of parts and upgrade revenue.

### *Services*

Gross profit from service revenue was 10.2% for the six months ended June 30, 2014, compared to 16.1% for the six months ended June 30, 2013. The decrease in gross profit is due to lower sales volumes and the mix of service contracts.



## Table of Contents

## Operating Expenses

The following table sets forth our operating expenses:

|  | Three months ended<br>June 30, |           | Period-to-Period<br>Change |          | Six months ended<br>June 30, |           | Period-to-Period<br>Change |          |
|--|--------------------------------|-----------|----------------------------|----------|------------------------------|-----------|----------------------------|----------|
|  | 2014                           | 2013      | \$                         | %        | 2014                         | 2013      | \$                         | %        |
|  | (dollars in thousands)         |           |                            |          |                              |           |                            |          |
| Research and development                                   | \$ 8,845                       | \$ 8,503  | \$ 342                     | 4.0%     | \$ 18,102                    | \$ 17,709 | \$ 393                     | 2.2%     |
| Percentage of revenues                                     | 21.5%                          | 17.9%     |                            |          | 17.7%                        | 20.1%     |                            |          |
| Sales and marketing  | 5,037                          | 5,594     | (557)                      | (10.0)%  | 10,513                       | 10,796    | (283)                      | (2.6)%   |
| Percentage of revenues                                     | 12.2%                          | 11.7%     |                            |          | 10.3%                        | 12.2%     |                            |          |
| General and administrative                                 | 6,494                          | 6,412     | 82                         | 1.3%     | 12,975                       | 13,001    | (26)                       | (0.2)%   |
| Percentage of revenues                                     | 15.8%                          | 13.5%     |                            |          | 12.7%                        | 14.7%     |                            |          |
| Gain on Sale of Dry Strip Assets and Intellectual Property |                                | (799)     | 799                        | (100.0)% |                              | (1,167)   | 1,167                      | (100.0)% |
| Percentage of revenues                                     | 0.0%                           | (1.7)%    |                            |          | 0.0%                         | (1.3)%    |                            |          |
| Restructuring charges                                      | 160                            | 421       | (261)                      | (62.0)%  | 360                          | 2,222     | (1,862)                    | (83.8)%  |
| Percentage of revenues                                     | 0.4%                           | 0.9%      |                            |          | 0.4%                         | 2.5%      |                            |          |
| Total operating expenses                                   | \$ 20,536                      | \$ 20,131 | \$ 405                     | 2.0%     | \$ 41,950                    | \$ 42,561 | \$ (611)                   | (1.4)%   |
| Percentage of revenues                                     | 49.9%                          | 42.3%     |                            |          | 41.1%                        | 48.2%     |                            |          |

Our operating expenses consist primarily of personnel costs, including salaries, commissions, expected incentive plan payouts, share-based compensation and related benefits and taxes; project material costs related to the design and development of new products and enhancement of existing products; and professional fees, travel and depreciation expenses.

Personnel costs are our largest expense, representing \$11.8 million and \$24.4 million, or 58.0% and 58.7%, of our total operating expenses for the three and six-month periods ended June 30, 2014, respectively. For the three and six month periods ended June 30, 2013, personnel costs were \$11.6 million and \$24.5 million, or 58.4% and 59.9%, of our total operating expenses, excluding the gain on sale of the dry strip assets and intellectual property and restructuring charges.

## Research and Development

# Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

|                          | Three months ended<br>June 30, |          | Period-to-Period<br>Change |      | Six months ended<br>June 30, |           | Period-to-Period<br>Change |      |
|--------------------------|--------------------------------|----------|----------------------------|------|------------------------------|-----------|----------------------------|------|
|                          | 2014                           | 2013     | \$                         | %    | 2014                         | 2013      | \$                         | %    |
|                          | (dollars in thousands)         |          |                            |      |                              |           |                            |      |
| Research and development | \$ 8,845                       | \$ 8,503 | \$ 342                     | 4.0% | \$ 18,102                    | \$ 17,709 | \$ 393                     | 2.2% |
| Percentage of revenues   | 21.5%                          | 17.9%    |                            |      | 17.7%                        | 20.1%     |                            |      |

Our ability to remain competitive depends largely on continuously developing innovative technology, with new and enhanced features and systems and introducing them at competitive prices on a timely basis. Accordingly, based on our strategic plan, we establish annual R&D budgets to fund programs that we expect will drive competitive advantages.

## Three Months Ended June 30, 2014 Compared with Three Months Ended June 30, 2013

Research and development expense was \$8.8 million during the three months ended June 30, 2014; relatively flat when compared with \$8.5 million during the three months ended June 30, 2013.

## Table of Contents

### Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013

Research and development expense was \$18.1 million during the six months ended June 30, 2014; relatively flat when compared with \$17.7 million during the six months ended June 30, 2013.

## Sales and Marketing

|                        | Three months ended<br>June 30, |          | Period-to-Period<br>Change |         | Six months ended<br>June 30, |           | Period-to-Period<br>Change |        |
|------------------------|--------------------------------|----------|----------------------------|---------|------------------------------|-----------|----------------------------|--------|
|                        | 2014                           | 2013     | \$                         | %       | 2014                         | 2013      | \$                         | %      |
|                        | (dollars in thousands)         |          |                            |         |                              |           |                            |        |
| Sales and marketing    | \$ 5,037                       | \$ 5,594 | \$ (557)                   | (10.0)% | \$ 10,513                    | \$ 10,796 | \$ (283)                   | (2.6)% |
| Percentage of revenues | 12.2%                          | 11.7%    |                            |         | 10.3%                        | 12.2%     |                            |        |

Our sales and marketing expenses result primarily from the sale of our equipment and services through our direct sales force.

### Three Months Ended June 30, 2014 Compared with Three Months Ended June 30, 2013

Sales and marketing expense was \$5.0 million during the three months ended June 30, 2014; a decrease of \$0.6 million, or 10.0%, compared with \$5.6 million during the three months ended June 30, 2013. The decrease was primarily due to lower new tool evaluation costs.

### Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013

Sales and marketing expense was \$10.5 million during the six months ended June 30, 2014; relatively flat when compared with \$10.8 million during the six months ended June 30, 2013.

## General and Administrative

|  | Three months ended<br>June 30, |      | Period-to-Period<br>Change |   | Six months ended<br>June 30, |      | Period-to-Period<br>Change |   |
|--|--------------------------------|------|----------------------------|---|------------------------------|------|----------------------------|---|
|  | 2014                           | 2013 | \$                         | % | 2014                         | 2013 | \$                         | % |
|  | (dollars in thousands)         |      |                            |   |                              |      |                            |   |

# Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

|                            |    |       |    |       |    |    |      |    |        |    |        |    |      |        |
|----------------------------|----|-------|----|-------|----|----|------|----|--------|----|--------|----|------|--------|
| General and administrative | \$ | 6,494 | \$ | 6,412 | \$ | 82 | 1.3% | \$ | 12,975 | \$ | 13,001 | \$ | (26) | (0.2)% |
| Percentage of revenues     |    | 15.8% |    | 13.5% |    |    |      |    | 12.7%  |    | 14.7%  |    |      |        |

Our general and administrative expenses result primarily from the costs associated with our executive, finance, legal and human resource functions.

## Three Months Ended June 30, 2014 Compared with Three Months Ended June 30, 2013

General and administrative expense was \$6.5 million during the three months ended June 30, 2014; compared with \$6.4 million during the three months ended June 30, 2013, essentially flat for the second quarter.

## Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013

General and administrative expense was \$13.0 million during the six months ended June 30, 2014 and June 30, 2013.

[Table of Contents](#)

### Gain on Sale of Dry Strip Assets and Intellectual Property

|  | Three months ended<br>June 30, |          | Period-to-Period<br>Change |          | Six months ended<br>June 30, |            | Period-to-Period<br>Change |          |
|--|--------------------------------|----------|----------------------------|----------|------------------------------|------------|----------------------------|----------|
|  | 2014                           | 2013     | \$                         | %        | 2014                         | 2013       | \$                         | %        |
|  | (dollars in thousands)         |          |                            |          |                              |            |                            |          |
| Gain on Sale of Dry Strip Assets and Intellectual Property | \$                             | \$ (799) | \$ 799                     | (100.0)% | \$                           | \$ (1,167) | \$ 1,167                   | (100.0)% |
| Percentage of revenues                                     | 0.0%                           | (1.7)%   |                            |          | 0.0%                         | (1.3)%     |                            |          |

In December 2012, we sold our dry strip assets and intellectual property to Lam. A portion of the purchase consideration (up to \$2.0 million) was contingent upon our achieving certain milestones. During the three and six-month periods ended June 30, 2013, the Company recorded \$0.8 million and \$1.2 million, respectively, for the milestones achieved. These amounts were partially offset by additional costs associated with the lab system purchased by Lam.

### Restructuring Charges

|                        | Three months ended<br>June 30, |        | Period-to-Period<br>Change |         | Six months ended<br>June 30, |          | Period-to-Period<br>Change |         |
|------------------------|--------------------------------|--------|----------------------------|---------|------------------------------|----------|----------------------------|---------|
|                        | 2014                           | 2013   | \$                         | %       | 2014                         | 2013     | \$                         | %       |
|                        | (dollars in thousands)         |        |                            |         |                              |          |                            |         |
| Restructuring charges  | \$ 160                         | \$ 421 | \$ (261)                   | (62.0)% | \$ 360                       | \$ 2,222 | \$ (1,862)                 | (83.8)% |
| Percentage of revenues | 0.4%                           | 0.9%   |                            |         | 0.4%                         | 2.5%     |                            |         |

We continue to align our organization with market demands. We implemented reductions in force in the periods presented to improve the focus of our operations, control costs, achieve future profitability and conserve cash. As a result of these actions, we recorded restructuring expense for severance and related costs during the three and six-month periods ended June 30, 2014 and 2013, respectively.

### Other Income (Expense)

|                        | Three months ended<br>June 30, |          | Period-to-Period<br>Change |         | Six months ended<br>June 30, |        | Period-to-Period<br>Change |          |
|------------------------|--------------------------------|----------|----------------------------|---------|------------------------------|--------|----------------------------|----------|
|                        | 2014                           | 2013     | \$                         | %       | 2014                         | 2013   | \$                         | %        |
|                        | (dollars in thousands)         |          |                            |         |                              |        |                            |          |
| Other income (expense) | \$ (617)                       | \$ (362) | \$ (255)                   | (70.4)% | \$ (574)                     | \$ 471 | \$ (1,045)                 | (221.9)% |
| Percentage of revenues | (1.5)%                         | (0.8)%   |                            |         | (0.6)%                       | 0.6%   |                            |          |

## Edgar Filing: AXCELIS TECHNOLOGIES INC - Form 10-Q

Other income (expense) consists primarily of foreign exchange gains and losses attributable to fluctuations of the U.S. dollar against the local currencies of certain of the countries in which we operate, interest earned on our invested cash balances, bank fees associated with our financing arrangements and interest expense related to our term loan.

The \$0.3 million increase in other expense for the three month period ended June 30, 2014 compared with the three month period ended June 30, 2013, related primarily to the interest expense on our term loan.

The \$1.0 million increase in other expense for the six month period ended June 30, 2014 compared with the six month period ended June 30, 2013, was primarily due a reduction of foreign exchange gains of \$0.6 million in 2014 compared to 2013 and due to interest expense on our term loan of \$0.4 million.

## Table of Contents

During the three and six-month periods ended June 30, 2014 and 2013, we had no significant off-balance-sheet risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

## Income Taxes

|                        | Three months ended<br>June 30, |        | Period-to-Period<br>Change |         | Six months ended<br>June 30, |        | Period-to-Period<br>Change |         |
|------------------------|--------------------------------|--------|----------------------------|---------|------------------------------|--------|----------------------------|---------|
|                        | 2014                           | 2013   | \$                         | %       | 2014                         | 2013   | \$                         | %       |
|                        | (dollars in thousands)         |        |                            |         |                              |        |                            |         |
| Income taxes           | \$ 231                         | \$ 263 | \$ (32)                    | (12.2)% | \$ 426                       | \$ 596 | \$ (170)                   | (28.5)% |
| Percentage of revenues | 0.6%                           | 0.6%   |                            |         | 0.4%                         | 0.7%   |                            |         |

We incur income tax expense relating principally to operating results of foreign entities in Europe and Asia, where we earn taxable income. We have significant net operating loss carryforwards in the United States and certain jurisdictions, and, as a result, we do not currently pay significant income taxes in those jurisdictions. Additionally we do not recognize the tax benefit for losses in the United States and certain European tax jurisdictions as we believe it is more likely than not that these benefits will not be recognized.

## Liquidity and Capital Resources

Our liquidity is affected by many factors. Some of these relate specifically to the operations of our business, for example, the rate of sale of our products, and others relate to the uncertainties of global economies, including the availability of credit and the condition of the overall semiconductor equipment industry. Most of our cost structure does not automatically vary with changes in volume, so we must take action to align expenses to varying levels of revenue, at times incurring restructuring costs. As a result, we experience fluctuations in operating results and cash flows depending on these changes.

During the six month periods ended June 30, 2014 and 2013, the Company used \$11.9 million and \$10.8 million, respectively, of cash to support operating activities. The net cash used by operating activities during the six months ended June 30, 2014 was predominately driven by the Company's loss from operations excluding non-cash charges for depreciation and amortization and stock based compensation, increases in inventories and accounts payables and other liabilities partially offset by decreases in accounts receivable and other assets and liabilities. In that period, net cash used for investing activities of \$0.6 million was for capital expenditures. Net cash provided by financing activities in the same period was \$1.8 million, primarily due to the exercise of stock options. These changes resulted in cash and cash equivalents at June 30, 2014 of \$35.6 million, compared to \$46.3 million at December 31, 2013.

We have a revolving credit facility with Silicon Valley Bank dated October 31, 2013 and amended on August 1, 2014 with a Waiver and Amendment Agreement. Under this revolving credit facility, we have the ability to borrow up to \$10.0 million on a revolving basis during its two year term. Our ability to borrow under this line of credit is limited to 80% of the then current amount of qualified accounts receivable. At June 30, 2014, our available borrowing capacity under the credit facility was \$8.9 million. There were no borrowings against this facility during the six months ended June 30, 2014. We were in compliance with all covenants related to the credit facility, with the exception of the Minimum Adjusted Net Income covenant, which was waived under the Waiver and Amendment Agreement.

We make monthly interest payments on our \$15.0 million mortgage under a July 2013 Business Loan Agreement with Northern Bank & Trust Company. The loan bears interest at 5.5% per annum. Monthly principal payments, based on a ten year amortization schedule, will commence in August 2014, with the remaining principal amount due in July 2016. The Business Loan Agreement was amended in May 2014 to defer to September 30, 2014 the effectiveness of a covenant establishing a minimum ratio of net income to debt service expense, waiving the Company's non-compliance with that covenant at March 31, 2014. The Company was in compliance with all covenants associated with the term loan during the second quarter of 2014.

We believe that based on our current market, revenue, expense and cash flow forecasts, our existing cash, cash equivalents and borrowing capacity will be sufficient to satisfy our anticipated cash requirements for the short and long-term.



Table of Contents

In light of the current industry environment, we are taking further aggressive actions in the third quarter of 2014 to reduce and align manufacturing and operating expense levels to our current business conditions and maintain sufficient liquidity to support operations. Our expectations regarding our liquidity are forward looking statements. Actual future results may vary from our current expectations due to a variety of economic and business factors.

**Commitments and Contingencies**

Significant commitments and contingencies at June 30, 2014 are consistent with those discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 16 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

As of June 30, 2014, there have been no material changes to the quantitative information about market risk disclosed in Item 7A to our annual report on Form 10-K for the ended December 31, 2013.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report (the Evaluation Date). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the Evaluation Date, these disclosure controls and procedures are effective.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control that occurred during the three months ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The Company is, from time to time, a party to litigation that arises in the normal course of its business operations. The Company is not presently a party to any litigation that it believes might have a material adverse effect on its business operations.

**Item 1A. Risk Factors.**

As of June 30, 2014, there have been no material changes to the risk factors described in Item 1A to our annual report on Form 10-K for the year ended December 31, 2013.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.



Table of Contents

**Item 6. Exhibits.**

The following exhibits are filed herewith:

| <b>Exhibit<br/>No</b> | <b>Description</b>   |
|-----------------------|--|
| 3.1                   | Amended and Restated Certificate of Incorporation of the Company adopted May 6, 2009. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Commission on May 11, 2009.  |
| 3.2                   | Bylaws of the Company, as amended as of August 8, 2007. Incorporated by reference to Exhibit 3.2 of the Company's Form 10-Q for the quarterly period ended June 30, 2007, filed with the Commission on August 9, 2007.   |
| 10.1                  | Letter Agreement between the Company and Northern Bank & Trust Company dated May 2, 2014, amending the Business Loan Agreement with Northern Bank & Trust Company. Filed herewith.   |
| 10.2                  | Axcelis Technologies, Inc. 2012 Equity Incentive Plan, as amended through May 13, 2014. Incorporated by reference to the appendix to the Company's Proxy Statement on Schedule 14A filed with the Commission on March 25, 2014.  |
| 31.1                  | Certification of the Principal Executive Officer under Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act), dated August 8, 2014. Filed herewith.  |
| 31.2                  | Certification of the Principal Financial Officer under Exchange Act Rule 13a-14(a)/15d-14(a) (Section 302 of the Sarbanes-Oxley Act), dated August 8, 2014. Filed herewith.  |
| 32.1                  | Certification of the Principal Executive Officer pursuant to Section 1350 of Chapter 63 of title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act), dated August 8, 2014. Filed herewith.   |
| 32.2                  | Certification of the Principal Financial Officer pursuant to Section 1350 of Chapter 63 of title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act), dated August 8, 2014. Filed herewith.   |
| 101                   | The following materials from the Company's Form 10-Q for the quarter ended June 30, 2014, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Loss, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements (Unaudited). |

[Table of Contents](#)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: August 8, 2014

AXCELIS TECHNOLOGIES, INC.

By: /s/ KEVIN J. BREWER

Kevin J. Brewer  
*Executive Vice President and Chief Financial Officer*  
*Duly Authorized Officer and Principal Financial Officer*